

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 ABF-01 FS-01 L-03 H-03 PA-04 PRS-01 USIA-15

SAJ-01 DRC-01 /180 W

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R 281645Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 3995

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS - PRESS

COMMENT

PASS TREASURY AND FRB

REF: (A) ROME 3991 DATED MARCH 22, 1974

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(B) ROME 3732 DATED MARCH 19, 1974

1. SUMMARY: FINANCIAL PRESS COMMENTS ON PERFORMANCE OF LIRE IN EXCHANGE MARKET FOLLOWING ABOLITION OF DUAL EXCHANGE MARKET ON MARCH 21 (SEE REFTEL (A)) EMPHASIZE FACT THAT LIRA HAS STRENGTHENED AGAINST DOLLAR AND HAS SETTLED VERY NEAR EARLIER LIRA/DOLLAR QUOTATIONS IN COMMERCIAL MARKET. END SUMMARY.

2. FINANCIAL PRESS DESCRIBES "NEW COURSE" OF STRONGER LIRA IN UNIFIED LIRA MARKET AS CONDITIONED BY: (A) RECENT INCREASE IN BANK OF ITALY BASIC DISCOUNT RATE FROM 6.5 TO 9 PERCENT, AND (B) RECENT WEAKNESS SHOWN BY DOLLAR. PRESS SEES RISE IN BOI DISCOUNT RATE AND RESULTANT CONSTRAINTS ON CREDIT (SEE REFTEL B) AS "TONIC" TO LIRA WITH ACTION TAKEN REPRESENTING STRONG CONFIRMATION THAT GOI FIRMLY COMMITTED TO FIGHT AGAINST INFLATION. PRESS ALSO SEES "RETURN" OF COLOMBO AS MINISTER OF TREASURY IN NEW RUMOR GOVERNMENT AS FURTHER POSITIVE SIGN THAT GOI IS SERIOUS ABOUT FIGHT AGAINST INFLATION. PRESS CONJECTURES THAT RECENT WEAKNESS OF DOLLAR IN EXCHANGE MARKETS IS SHORT-TERM PHENOMENON WHICH FAVORABLE TO US IN RENDERING US PRODUCTS MORE COMPETITIVE IN EXPORT MARKETS.

3. WHILE FACTORS DESCRIBED ABOVE ARE MENTIONED AS PROVIDING SHORT-TERM BOUYANCY TO LIRE, PRESS ALSO SEES STRENGTHENING OF DEUTSCHE MARK AND POSSIBLE REVALUATION OF MARK AND ECONOMICALLY RELATED CURRENCIES AS OPERATING TO ITALY'S ADVANTAGE BY RENDERING ITALIAN PRODUCTS MORE COMPETITIVE IN THESE AND IN THIRD-COUNTRY EXPORT MARKETS. HOWEVER, SHORT-TERM FACTORS WHICH MOMENTARILY ARE CONTRIBUTING TO STRENGTHENING OF LIRA BELY BASIC WEAKNESS OF LIRA STEMMING FROM WHAT PRESS CONSIDERS FUNDAMENTAL WEAKNESS OF ITALIAN ECONOMY. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, DISCOUNT (CURRENCY), PRIME INTEREST RATES, CREDIT CONTROLS, ANTIINFLATIONARY PROGRAMS, EXPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME04318
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740068-0586
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974037/aaaaagor.tel
Line Count: 96
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) ROME 3991 DATED MARCH 22, 1974
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by collinp0>; APPROVED <05 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS - PRESS COMMENT
TAGS: EFIN, IT, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005